



## Independent Accountant's Report

We have examined management's assertions, included in the accompanying "*TelePacific Management Assertions on Compliance with FCC Requirements for Payphone Compensation Processes*," that U.S. TelePacific Corp., a California corporation, on behalf of itself and its affiliates Mpower Communications Corp., a Nevada corporation, and Arrival Communications, Inc., a Delaware corporation (referred to jointly and severally herein as "TelePacific") has complied with the payphone call tracking system audit criteria pursuant to sections 64.1310 (a), 64.1310 (c), 64.1310 (g), and 64.1320 of Appendix C - Final Rules of the FCC's Report and Order of October 3, 2003 (FCC 03-235/CC Docket No. 96-128) in the matter of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996 which provides that each Completing Carrier engages an independent third-party to perform an audit of the call tracking system that supports the payphone compensation payments. The order requires each Completing Carrier to establish its own payphone call tracking system and to have a third party attest that the system accurately tracks payphone calls to completion.

TelePacific Management is responsible for compliance with those requirements. Our responsibility is to express an opinion on management's assertions about TelePacific's compliance based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about TelePacific's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on TelePacific's compliance with specified requirements.

In our opinion, management's assertions that TelePacific complied with the aforementioned requirements as of June 30, 2010, are fairly stated in all material respects.

A handwritten signature in blue ink, appearing to be "Michael J. [unclear]", followed by the letters "CBA" in blue ink.

Engel Consulting Group  
June 30, 2010



**TelePacific Communications  
Payphone Per Call Compensation  
2010 FCC Audit Report and Attestation**

**June 30, 2010**



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## 1.0 Introduction

TelePacific Communications (“TelePacific”) engaged the services of the Engel Consulting Group (“Engel”) to conduct the system audit of its payphone compensation processes and procedures and complete an attestation of compliance with the Federal Communications Commission (FCC) requirements to establish a call tracking system to compensate Payphone Service Providers (PSPs) for originating toll-free and access-code calls. This examination is in accordance with the provisions set forth in Appendix C – Final Rules of FCC 03-235/CC Docket No. 96-128 dated October 3, 2003, which obligates Completing Carriers to undergo a system audit of their call tracking system by an independent third party auditor to determine whether the call tracking system accurately tracks payphone calls to completion.

*TelePacific Management’s Assertions on Compliance with FCC Requirements for Payphone Compensation Processes* dated June 30, 2010 states that the TelePacific call tracking system, processes, and procedures for payphone compensation are in compliance with the criteria and audit requirements specified in §64.1310 and §64.1320 of FCC 03-235/CC Docket No. 96-128. The purpose of this examination is to verify that the call tracking system accurately tracks payphone calls to completion and that TelePacific’s assertions of compliance with the FCC criteria are fairly stated.

## 2.0 Executive Summary

To fulfill the audit requirements and criteria for a Per Call Compensation system specified in §64.1310 and §64.1320 of FCC 03-235/CC Docket No. 96-128, the Engel Consulting Group was engaged by TelePacific to audit the processes and procedures for payment of per call compensation (PCC) to Payphone Service Providers (PSPs) for toll-free and access-code calls where TelePacific is the Completing Carrier.

The audit plan mapped a specific validation test with each of the TelePacific assertions of compliance with the FCC requirements. The validation consisted of interviewing Subject Matter Experts (SMEs), examining process documentation and correspondence, reviewing controls at process hand-offs, and inspecting call detail records. To validate that the end-to-end call tracking process operates properly, the Audit Team traced a sample of payphone calls through the system by independently inspecting call detail records at different steps in the process and verifying that the determination of compensable records by TelePacific was accurate.

Based upon the data and procedures examined and tested during the audit process, the Audit Team concludes that TelePacific has satisfied the requirements specified in the aforementioned FCC Orders. TelePacific’s assertions of compliance with the FCC criteria specified in §64.1320 of the Final Rules are fairly stated and the Audit Team attests that the TelePacific call tracking system complies with the stated criteria as of June 30, 2010.

## 3.0 Background

TelePacific had been providing retail 8YY service to its customers through the use of several different wholesale long distance service providers. A decision was made to migrate away from these providers and provide 8YY service through the use of the TelePacific FGD network for calls originating in the states of



California and Nevada and the use of a single wholesale provider, AT&T, for calls originating outside of the TelePacific network.

TelePacific had been totally dependent on the wholesale long distance providers to do the database dip and perform the 8YY number translation to the appropriate terminating number. The wholesale provider simply sent the calls to TelePacific for termination. By providing 8YY service on its own network, TelePacific is now in a position to know more about the 8YY call and is able to independently handle the 8YY number translation.

This migration of 8YY service to TelePacific's own FGD network has resulted in TelePacific's need to fulfill its per call compensation obligation to the PSPs for 8YY calls originating in California or Nevada and terminating on TelePacific's network. The FCC, in its Order in Docket No. 96-128 dated October 3, 2003, in the matter of the *Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, had adopted new rules placing liability for compensating PSPs on the Completing Carriers for calls originating from payphones and completing on their networks. To ensure that the PSPs are fairly compensated, the FCC also imposed new audit, certification, and reporting requirements requiring each Completing Carrier to establish its own call tracking system and to engage a third party to attest that the system accurately tracks calls to completion.

In order to comply with the FCC requirements, TelePacific has established its own call tracking system designed to identify and track completed payphone-originated 8YY calls for purposes of per call compensation. In addition, procedures were put into place to capture all payphone-originated completed 8YY calls from the time the migration was implemented in late 2007 through to the current quarter.

## **4.0 Audit Approach and Test Plan**

The objective of this audit was to validate through testing and other means deemed appropriate that the payphone call tracking system which TelePacific has put in place complies with the audit requirements and criteria specified in §64.1310 and §64.1320 of FCC 03-235/CC Docket No. 96-128. Following the Standards for Attestation Engagements established by the American Institute of Certified Public Accountants (AICPA), the Engel Consulting Group utilized an approach which examined TelePacific's processes, procedures, and system documentation in addition to interviewing SMEs responsible for payphone compensation. In addition, the Audit Team validated a test of the end-to-end process which was conducted by tracing a sample of payphone call detail records (CDRs) from origination on the switch to the compensable calls sent to the Billing Systems Group (BSG) for payment and reporting to the PSPs.

## **5.0 Validation Test Results**

### **5.1 Assertion #1 – Call Tracking System**

#### **TelePacific has procedures in place to accurately identify and track coinless access code or subscriber toll-free payphone calls to completion**

The Audit Team interviewed the TelePacific call processing Subject Matter Expert (SME) who explained that in the TelePacific system, there are two sources of 8YY calls: calls originating on the TelePacific FGD network and calls originating outside the FGD network carried by AT&T. The FGD network only includes 8YY calls originating from California or Nevada NPAs. Completed calls are identified by the Off Hook (call was answered) indicator of '0c' on the Call Detail Records (CDRs). The calls originating from



payphones are uniquely identified by Usage Type = 710 and Originating Line Information (OLI) = 27, 29, or 70.

In order to capture the OLI information for each 8YY call, TelePacific has set up two Automatic Message Accounting (AMA) recordings. The base record is recorded as Call Code 068 and Structure Code 220 and includes the originating number, the dialed 8YY number, the destination number, etc. This record is correlated to a unique record recorded as Call Code 710 and Structure Code 625 which also includes the trunk group number and OLI digits. Both records have Off Hook (completion) indicators. Calls originating on the FGD network are distinguished from calls coming from the AT&T network through a unique trunk group assignment for AT&T.

Checks are conducted in the mediation system for missing files and duplicate records by comparing the first 6-digit block number with the last block number in the file. The 3-digit sequence number increments from each download so that all blocks or records can be accounted for and any missing or overlapping blocks or files can be detected. A further series of validations ensures that the date and time fields are correctly populated and that the appropriate modules are appended to the record.

Examination of the documentation confirmed the processes for uniquely identifying and tracking completed payphone calls in addition to eliminating any duplicate records. The Audit Team inspected a sample of completed payphone calls and observed the appropriate OLI values of 27 or 70 (no CDRs had an OLI value = 29) and Off Hook (completion) indicators of '0c.' on the CDRs. No duplicate records were found in the sample.

For payphone calls originating outside of the FGD network, TelePacific, as a Switched Based Reseller, has contracted with AT&T to pay compensation on its behalf on 100% of all delivered payphone compensation calls to TelePacific's platform. AT&T's processes for notifying the PSPs of this arrangement as well as for administering the payments has been audited and a copy of the 2009 audit report was examined by the Audit Team. In addition, TelePacific provided a copy of the January 31, 2007 notification to the PSPs by AT&T of the selected option which is posted on the National Payphone Clearinghouse website.

The specific validation tests for this assertion are documented below:

Validation Test	Test Results
<ol style="list-style-type: none"> <li>1. Interviewed the call processing SME to understand the process for identifying and tracking completed payphone calls</li> <li>2. Examined the documentation to verify that the systems and processes for identifying and tracking calls originating from payphones are well documented</li> <li>3. Reviewed call collection and usage processing documentation to determine whether controls are in place for ensuring all payphone usage is processed and duplicate CDRs are identified.</li> <li>4. Inspected a sample of CDRs and observed OLI values equal to 27 or 70 and off hook (completion) indicators of '0c'</li> <li>5. Examined AT&amp;T audit report and PSP notification of TelePacific's selected option for PSP payment as a Switched Based Reseller</li> </ol>	No deficiencies or exceptions noted

## 5.2 Assertion #2 – Payphone Dispute Responsibility

**TelePacific has assigned a specific person responsible for tracking, compensating, and resolving disputes concerning payphone completed calls.**



Based on the contractual relationship between TelePacific and BSG, the primary responsibility for handling payphone disputes resides with BSG. In addition, TelePacific has identified an internal resource responsible for payphone compensation who can be called upon to assist in the resolution of payphone disputes and inquiries. The Audit Team reviewed the job description for the internal resource where it states that he is responsible for managing and coordinating all payphone compensation activities with BSG and assisting BSG with any dispute resolution activities.

The specific validation tests are documented below:

<b>Validation Test</b>	<b>Test Results</b>
1. Inspected TelePacific documentation to determine the process whereby a PSP initiates a dispute with respect to payphone compensation	No deficiencies or exceptions noted
2. Inspected job description for TelePacific SME responsible for payphone compensation	

### **5.3 Assertion #3 – Data Monitoring Procedures**

**TelePacific has effective data monitoring procedures in place.**

The Audit Team examined TelePacific's documentation which described a three-tiered monitoring process to ensure the integrity of the call collection and usage mediation processes. In order to ensure the safe creation, delivery, and capture of all of the call detail records from the switches, TelePacific uses industry standard monitoring methods to alert the technical personnel of any problems in the recording or polling processes. Depending on the specific event that has triggered the alarm, the switch technicians follow prescribed procedures to resolve the issue. The TelePacific data network is monitored on a real-time basis to ensure that any problems are quickly identified and resolved so that none of the data is lost. The software technology within the mediation environment includes the ability to set the fault tolerance for each switch polling portal. These thresholds are multi-faceted and include time sensitive alarms, file sequence checks, and record sequence checks.

Annual audits are conducted on these monitoring efforts to ensure that all possible and actual failures are appropriately detected and alarmed and that the subsequent actions are correctly defined and actionable.

The specific validation tests are documented below:

<b>Validation Test</b>	<b>Test Results</b>
1. Inquired about TelePacific's data monitoring procedures	No deficiencies or exceptions noted
2. Examined documentation describing TelePacific's monitoring and alarm process to ensure data integrity	

### **5.4 Assertion #4 – Change Management Protocols**

**TelePacific adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability**

The Audit Team examined documentation describing the Standard Development Life Cycle (SDLC) process in place at TelePacific to ensure tight control of changes made to critical systems. The process ensures that business requirements, system functionality, user interfaces, and required results are identified, documented, designed, developed, tested, and implemented in accordance with the SDLC.



There are two methods to initiate a change to a critical system: 1) through a Help Desk ticket or 2) issuance of an Information Technology Service Request (ITSR). Depending on the findings from the Help Desk ticket or the assessment of the ITSR, a change request can be created. A sample of an actual ITSR was examined and the Audit Team traced the flow of a change request through the process from initiation of the ITSR through to completion of the Change Control Request (CCR) document for production release of the change.

The Audit Team examined the *Remedy®-based Change Control Request (CCR) Guide* which outlines the process to be followed to create a change control record required to implement changes. Changes to production systems require the approval of the Change Control Board (CCB) which meets on a weekly basis to review change requests submitted for approval.

A third party audit is performed annually where all of the Change Control Requests (CCRs) are reviewed and traced back to the source documentation and ITSR or Help Desk ticket. All of the documentation is reviewed with special attention given to the Senior Vice President approval authorizing the change and the documented validation of the change results.

For any changes to the FGD network such as switch upgrades or patches, TelePacific follows the detailed roadmap provided by the switch vendor on what needs to take place for implementation. Since these are live switches and active calls, any outage is unacceptable.

The specific validation tests are documented below:

<b>Validation Test</b>	<b>Test Results</b>
1. Examined SDLC and change control documentation	No deficiencies or exceptions noted
2. Traced a sample change request through the process from initiation through to completion	
3. Inspected a sample ITSR	
4. Inquired about the change control process for network changes	

## **5.5 Assertion #5 – Compensable File Creation**

### **TelePacific has created compensable payphone call files by matching call detail records against payphone identifiers**

The Audit Team traced the details on a sample of CDRs originating at the switches through the call tracking process to the records on the compensable file sent to BSG and noted that all compensable CDRs had OLI values of 27 and 70 (OLI values of 29 were not observed) and off hook (completion) indicators of '0c' which is outlined in the process documentation as the means to identify completed payphone calls.

The specific validation tests are documented below:

<b>Validation Test</b>	<b>Test Results</b>
1. Traced sample of CDRs received from the switches through the process concluding with the compensable records sent to BSG	No deficiencies or exceptions noted
2. Observed OLI values equal to 27 and 70 on CDRs of the compensable records sent to BSG	
3. Validated the test of a sample of payphone CDRs using business rules defined in Assertion #9 to compare results with the compensable records sent to BSG	



## 5.6 Assertion #6 – Payphone Call Data Reports

### TelePacific has implemented procedures to incorporate call data into required reports

TelePacific creates the compensable call files and sends them to BSG to handle the PSP quarterly compensation and reporting. The Audit Team traced the process from the capture of compensable call data through to the control reports provided by BSG. After the call data has been received, BSG produces a series of reports for TelePacific to review that quantify the specifics on the payouts. The Audit Team examined samples of these reports for 4Q2009 including the PSP status report listing the number of validated calls for each PSP and the number of calls requiring further investigation. TelePacific analyzes the calls in the latter category and makes the determination as to their validity and responds back to BSG.

BSG also provides a High Volume Call report which lists any payphone numbers exceeding the usage criteria based on a certain threshold for calls to a unique 8YY within a single month. These calls are excluded from the quarterly payout and TelePacific must respond to BSG if the calls are to be paid.

The third report examined by the Audit Team was a listing of the 3/31/10 compensation details for each PSP or PSP association. The final report provided by BSG contains the total dollars owed by TelePacific to the PSPs and to BSG for the services they have provided.

Since the actual PSP quarterly payment and reporting is performed under contract by BSG, the Audit Team also examined the results from the SAS 70 report, *Dial Around Compensation: Report on Controls Placed in Operation and Tests of Operating Effectiveness* for the period 4/1/09- 3/31/10 conducted by an independent auditor on the BSG control procedures to ensure that the controls for processing the TelePacific data were reasonable and adequate for payphone compensation and reporting. The auditor stated that the controls are suitably designed to provide reasonable assurance that the specified control objectives would be achieved and no deficiencies or exceptions were noted.

The specific validation tests are documented below:

Validation Test	Test Results
1. Traced the process from call capture through to BSG reporting to ensure controls were in place	No deficiencies or exceptions noted
2. Examined the control reports from BSG to verify the accuracy of the data	
3. Examined the current SAS 70 report on the BSG control procedures to verify the adequacy of the controls for processing the payphone data received from TelePacific	

## 5.7 Assertion #7 – Payphone Compensation Dispute Procedures

### TelePacific has implemented critical controls and procedures necessary to resolve payphone compensation disputes

As part of the contractual arrangement between TelePacific and BSG, BSG serves as the principal point of contact in matters of dispute resolution with respect to PSP payments and related issues. In addition, TelePacific has an internal resource responsible for managing the payphone compensation activities who will assist BSG in investigating and resolving any payphone disputes or inquiries. To facilitate timely resolution of disputes, both TelePacific and BSG retain payphone call detail records for at least 27 months.



The specific validation tests are documented below:

<b>Validation Test</b>	<b>Test Results</b>
1. Received confirmation from TelePacific that payphone CDRs are retained for at least 27 months	No deficiencies or exceptions noted
2. Interviewed TelePacific SME responsible for payphone compensation to determine the process for handling disputes	

## **5.8 Assertion #8 – Payphone Compensation Error Control Process**

**TelePacific has implemented critical controls and procedures to ensure payphone compensation errors are insubstantial**

The Audit team examined the documentation which described the TelePacific procedures to identify payphone-originated 8YY calls and determine whether the calls are subject to compensation. The process to capture the call data for compensation purposes is well-documented and includes provisions to validate the appropriate population of the required data fields. Procedures are in place to exclude incomplete calls from the compensable call file as well as to accurately populate the call record data. In the event a PSP questions the volume of calls for which compensation was made, follow-up investigations by both BSG and TelePacific ensue to resolve the inquiry and ensure no data was lost in the data capture and compensation processes.

The specific validation tests are documented below:

<b>Validation Test</b>	<b>Test Results</b>
1. Examined process documentation to validate the controls for identifying payphone-originated 8YY calls eligible for compensation	
2. Interviewed the TelePacific SME responsible for investigating compensation disputes	

## **5.9 Assertion #9 – Payphone Compensation Business Rules**

**TelePacific has adequate and effective business rules in place for implementing and paying payphone compensation, including rules to: 1) identify calls originated from payphones, 2) identify compensable payphone calls, and 3) identify incomplete or otherwise non-compensable calls**

The Audit Team traced the details from a sample of payphone CDRs from origination at the switch to their appearance as compensable records sent to BSG to validate the compensable call business rules. All compensable CDRs contained the originating ANI and OLI values of 27 or 70 (no records contained the OLI value of 29) and there were no duplicate records. In addition, all CDRs were either toll-free or access-code dialed calls and all contained an off hook indicator of '0c' which signified completed calls. The call processing documentation and data capture process were examined and determined to be consistent with the results of the CDR observations from the compensable records.

The specific validation tests are documented below:



**Validation Test**

1. Traced sample of CDRs received from the switches through the process and compared results with the compensable records sent to BSG
2. Inspected sample CDRs to determine if only completed calls with the appropriate OLI values were in the compensable records sent to BSG and that the originating ANI was included
3. Examined call processing and data capture documentation to validate consistency in the business rules

**Test Results**

No deficiencies or exceptions noted

## **5.10 Assertion #10 – CFO Sworn Statement of Payphone Compensation Accuracy**

**TelePacific has procedures in place to post the Chief Financial Officer’s sworn statement of payphone compensation accuracy based on 100% of all completed calls**

The Audit Team examined the April 1, 2010 CFO certification letter and supporting documentation for the period 4Q2007 through 4Q2009. The March 31, 2010 payout included not only the payment for compensable calls completed during 4Q2009 but also for the compensable calls TelePacific captured for the period subsequent to the migration of 8YY traffic to its own FGD network. This letter is posted on the BSG website for access by the PSPs and PSP associations.

The specific validation tests are documented below:

**Validation Test**

1. Examined the quarterly CFO certification statement to validate that they had been completed
2. Confirmed that the sworn statement appears on the BSG website

**Test Results**

No deficiencies or exceptions noted

## **6.0 Audit Conclusions and Findings**

Based on the results of the examination of the TelePacific payphone compensation processes and procedures and the end-to-end validation of the overall call tracking system, the Audit Team concludes that TelePacific and the payphone call tracking system are in compliance with the FCC audit requirements and criteria specified in §64.1310 and §64.1320 of the Final Rules of FCC 03-235/CC Docket No. 96-128. The Audit Team further attests that TelePacific’s assertions of compliance with the aforementioned requirements and criteria are fairly stated in all material respects.

### **6.1 Contact Information**

Please direct any questions regarding this audit to:

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## 7.0 Appendices

Appendix	Document
A	TelePacific Management's Assertions on Compliance with FCC Requirements for Payphone Compensation Processes

